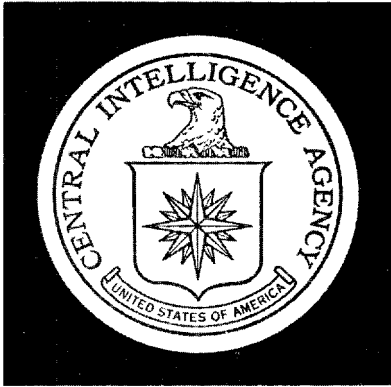


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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State Dept. review completed

1 December 1967
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(Information as of noon EST, 30 November 1967)

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FAR EAST

Communist military activity in South Vietnam's western highlands declined last week following the fierce three-week battle at Dak To, but Communist forces maintained pressure on allied positions to cover the redeployment of North Vietnamese units involved in this action. Viet Cong attacks throughout the delta, as well as the aggressive Communist posture in II and III Corps areas, suggest, however, an intention to sustain a higher level of offensive action throughout South Vietnam.

The rivalry between President Thieu and Vice President Ky was manifested in private expressions of discontent with the new Saigon government by some senior military officers aligned with Ky. These officers reportedly believe that Ky's power position is deteriorating and that Thieu has reneged on his alleged promise that the military would continue to dominate the government. This dissatisfaction is confined to a small group of ranking officers and does not appear to pose a threat to the new government's stability at this stage.

Press reports of the discovery of a Viet Cong base on Cambodian territory prompted Prince Sihanouk to warn that the war may soon be extended into Cambodia. He repeated previous denials that there are permanent Communist facilities in Cambodia but conceded that his forces cannot prevent Communist units from passing through isolated border areas. Although Sihanouk is under some domestic pressure to adopt a more "neutral" course, there is no indication that he is prepared to press the Viet Cong to limit their presence in Cambodia.

The continuing standoff between Maoists and moderates appears to underlie Peking's failure to take decisive action to suppress Red Guard clashes and civil disobedience in China. The paramount influence of the moderates in foreign affairs, however, seems apparent in moves to ease tensions with Britain. Peking removed restrictions on the British mission in response to a similar British relaxation of restrictions on Chinese diplomats in London. The Chinese also reached an agreement with Hong Kong authorities on border issues last week after protracted talks originally proposed by the Chinese.

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VIETNAM

The opening phase of the Communist "winter-spring" campaign in the western highlands has apparently ended following three weeks of heavy fighting near Dak To in southwestern Kontum Province. The final battle ended last weekend with the US seizure of Hill 875, the strategic high point some 14 miles southwest of the US base camp at Dak To.

Several small-scale engagements and the shelling of scattered allied positions early this week have covered the redeployments of the four North Vietnamese regiments involved in the Dak To fighting. The Communists may continue to follow their strategy of attacking and engaging allied forces and then withdrawing to previously prepared positions where they can concentrate maximum firepower and inflict heavy casualties on allied troops.

This pattern of activity, although extremely costly to the enemy, has nevertheless resulted in a high number of allied casualties. The Communists have also succeeded in drawing in and tying down large numbers of US combat and support troops from other areas of the country. These objectives have been spelled out in

captured enemy documents, suggesting that additional large-scale fighting may again erupt in the western highlands.

Enemy forces, meanwhile, are maintaining their aggressive posture in the northern portions of South Vietnam's III Corps area. During the past week, two Viet Cong (VC) regiments--the 272nd of the VC 9th Division and the 275th of the VC 5th Division--attacked allied outposts and Special Forces camps near Song Be in northern Phuoc Long Province. Elements of these regiments, together with the North Vietnamese 88th Regiment, will probably continue to harass remote allied positions, staging ambushes along several of the key highways, and possibly mounting another multibattalion assault in the Loc Ninh - Song Be area.

In southernmost IV Corps, the Viet Cong are continuing to demonstrate an ability to coordinate their harassment of allied installations. Administrative centers, outposts, bivouac areas, and airfields have been shelled and attacked. The recent increase in harassing tactics in the delta and elsewhere may be designed in part to shift attention from the main force units, many of which are recovering from severe losses.

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Political Developments
In South Vietnam

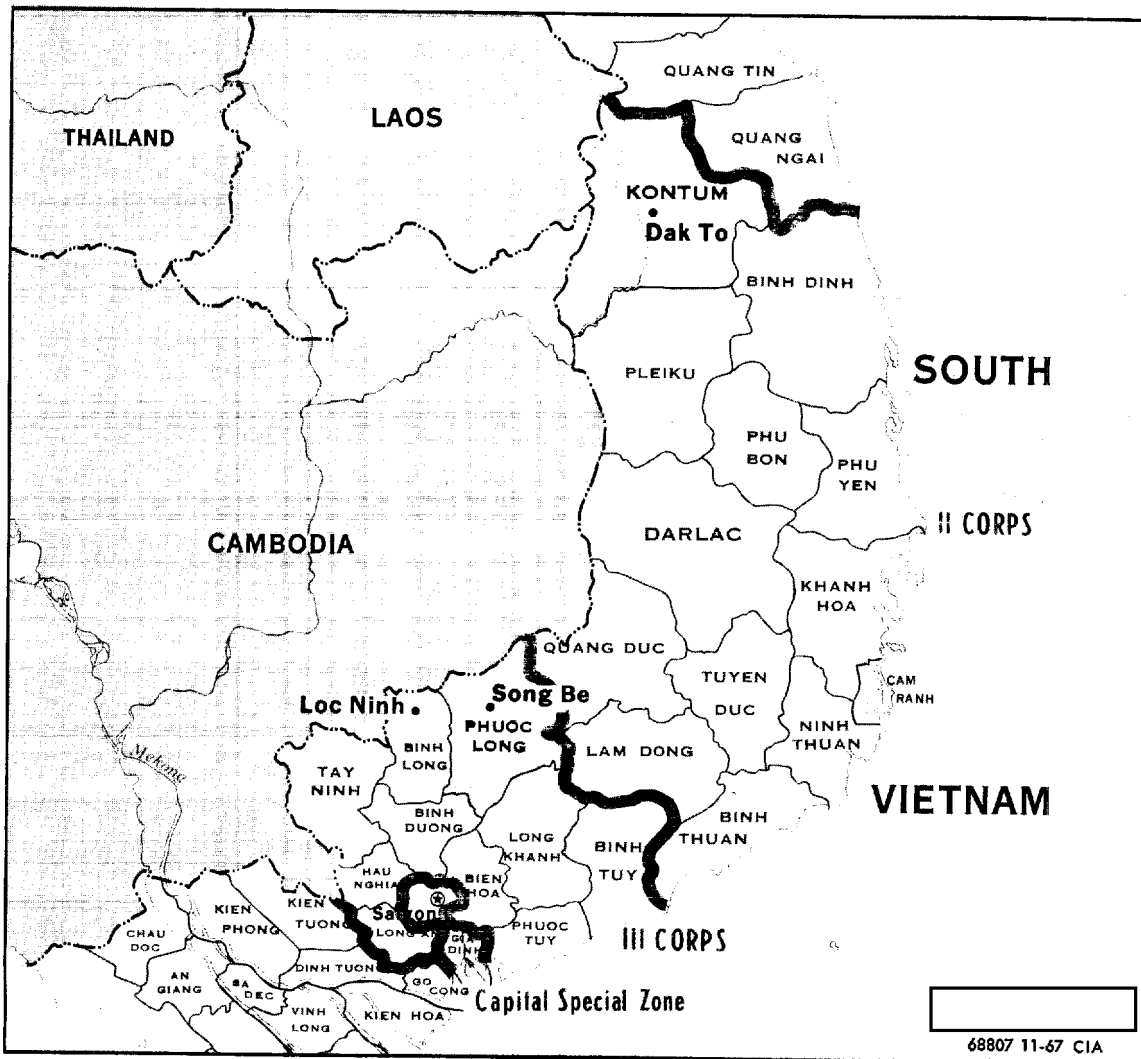
Several key generals are reported to be increasingly dissatisfied with the decisions and appointments of the new Saigon government. They are said to feel that Thieu has reneged on "assurances" that there would be no reduction in the military's behind-the-scenes control of the government.

Although there is undoubtedly a feeling of pique and frustration among some of the key generals, it does not appear likely that there will be mass resignations in the immediate future.

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The concern of some of the military about the political



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situation is apparently linked to Police Director Nguyen Ngoc Loan's resignation, which he submitted on 24 November. Loan's desire to resign is ostensibly because of fatigue, but he admits privately that the primary reason is his reservation over certain government appointees--including Prime Minister Loc and secretary to the presidency Nguyen Van Huong--whom he believes have questionable and potentially subversive backgrounds. Apparently at Ky's request, Loan has agreed to stay for two or three months, however.

In the National Assembly, the Upper House has taken serious exception to the government's national mobilization decree. The senators are concerned about the constitutionality of the government's unilateral action in promulgating the decree before the investiture of the legislature. Substantively, the law has also come under fire because it lowers the draft age to 18. The Upper

House has agreed to call on Prime Minister Loc to appear before it to answer questions about the decree.

In the Lower House, meanwhile, a largely Catholic group of deputies calling themselves the Independence Group and a Buddhist-oriented body of representatives called the Progressive Bloc have agreed to enter into a limited working agreement. The objective of this 48-member alliance is to prevent the domination of the assembly by the pro-government Democratic Bloc, which reportedly has at least 50 members. The principal gainer in this new coalition seems to be the 15-member Progressive Bloc, which will acquire new stature by joining a group more than twice its size. Au Truong Thanh, the leftist-leaning former minister of economy, is also reported to be attempting to form a political bloc from among independents in the Lower House.

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CAMBODIA FEARS SPREAD OF VIETNAM WAR

Prince Sihanouk is voicing alarm that the war in South Vietnam may soon be extended into Cambodia.

He told a press conference in Phnom Penh on 26 November that the recent spate of US press reports on Vietnamese Communist activities in Cambodia are a form of pressure on the US Government to extend the war across the border. Sihanouk praised President Johnson for exercising restraint but went on to warn the Cambodian people that they must be prepared for a "struggle to the death against the Americans." Sihanouk reiterated that any US move across the border would force Cambodia to fight alongside the Viet Cong and the North Vietnamese.

Sihanouk also issued denials that there are permanent Communist facilities on Cambodian territory, although he went further than he has before by acknowledging that Communist units pass through isolated border areas. Sihanouk also admitted that Cambodia had made a "verbal agreement" to sell rice and other nonmilitary goods to the Viet Cong. This is the first explicit statement that such an agreement has been reached since mid-1965, when Sihanouk revealed that Cambodia had been asked by the Viet Cong to sell them rice.

Phnom Penh has, however, reiterated flat denials that Cam-

bodia is providing military supplies to the Communists or that such supplies are moving through the port of Sihanoukville. Sihanouk has taken the position, that, in contrast to other kinds of support, providing military supplies to the Communists would be in violation of Cambodia's neutrality.

Sihanouk's statements over the past week indicate that he intends to continue to portray Cambodia as the innocent victim of circumstances beyond its control. He has underlined this position by pointed references to the inability of the allied forces to control the South Vietnamese side of the border. At the same time, he has sought to demonstrate his good faith by renewing a standing request for an expanded International Control Commission (ICC) with permanent sites in border areas. Previous calls for an expanded ICC have foundered--as a result of Soviet and Indian foot-dragging.

Thus far, there are no indications that Sihanouk intends to bring increased pressure to bear on the Vietnamese Communists to limit their presence in Cambodia. Leading Cambodian civilian and military leaders, increasingly concerned that Sihanouk's policies will cause the war to spread to Cambodia, have long been urging him to follow a more "neutral" course. It seems unlikely, however, that he will be any more receptive to their counsel now than he has been in the past.

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VIOLENCE CONTINUES IN CHINA WHILE PEKING VACILLATES

Leaders in Peking seem reluctant to take decisive steps to stamp out civil disobedience, clashes between rival Red Guard groups, and other disorders.

Violence and disorder have been spreading in Manchuria since early November. Tensions also reportedly remain high in such east China cities as Shanghai, Peking, and Canton. A Shanghai broadcast on 19 November complained that Red Guards were becoming more vocal and belligerent. In some areas, Red Guard groups are beginning to use firearms again.

Although Peking's failure to take the drastic measures necessary to suppress disorder evidently stems from unresolved conflicts within the leadership, regime propaganda continues to stress moderation and a return to order. In the past week, renewed emphasis was placed on the need to make full use of the experience of "old cadres," who clearly have been reluctant to resume their responsibilities after the battering they received at the height of the Cultural Revolution.

The regime is probably also attempting to reassure peasants that the excesses of the Great

Leap Forward period are not to be repeated, hoping thereby to lessen tensions over grain procurement problems in rural areas.

Several recent reports indicate that the regime is considering covening its long-postponed 9th party congress next summer. The reports suggest that the congress, originally scheduled for 1961, would serve to restore some of the prestige of the party, which has been severely eroded in the course of the Cultural Revolution. It would at the same time formalize the removal of those purged in the past two years.

Minister of Security Hsieh Fu-chih, a leading moderate spokesman who is reported to have discussed the holding of the congress in a recent speech, apparently suggested that some Red Guards would be allowed to join the party, but only after proper screening. Red Guards would also be allowed to attend the congress itself. These offers are evidently intended to induce greater cooperation from militant Red Guard groups as part of Peking's efforts to restore order. There have been no signs that grass-roots preparations for the congress-- 25X1
which normally take a year--are in fact under way.

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MALAYSIA HIT BY RACIAL RIOTING

Long-standing communal tension has been fanned into widespread violence by pro-Communist Chinese elements protesting the government's recent currency devaluation.

The violence was triggered by the government's failure to revalue the "old" Malayan dollar whose value is quoted in terms of sterling. Thus, when the British pound was devalued by 14.3 percent, the value of the Malayan dollar fell correspondingly. The "new" Malaysian dollar, whose value is quoted in terms of gold, was not affected, however, causing considerable confusion and furor. This development was a particularly hard blow to many small businessmen and shopkeepers who tend to keep their savings in cash. Although the old currency is in the process of being withdrawn, it still constitutes a sizable percent of the money in circulation.

Violence erupted in Penang on 24 November when pro-Communist

elements in the Labor Party of Malaya (LPM) attempted to force a closure of all shops in the city as a protest move. Chinese-Malay friction quickly developed, and at least 80 racial clashes were reported in Penang on 24 November alone. Although violence on the island was largely brought under control by 27 November, rioting spread to parts of the mainland opposite the island and forced the government to declare limited martial law in the affected areas on 28 November. The latest police estimate of casualties is 22 dead and 250 injured. About 1,000 have been arrested, including a number of local LPM leaders.

Although the government is apparently bringing the situation under control and will take firm measures against the heavily Communist-infiltrated Labor Party, the current unrest dramatizes the inherent communal animosities in Malaysia and shows how quickly agitation over other issues can degenerate into racial clashes.

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PEKING AND LONDON TAKE STEPS TO REDUCE TENSION

The Chinese and British have now taken reciprocal steps to ease tension between the two countries. A mutual relaxation of restrictions on diplomats in the respective capitals and an informal Sino-British agreement on Hong Kong border issues suggest Peking is willing to return to more normal diplomatic relations.

The Chinese Foreign Ministry informed the British chargé on 27 November that all restrictions on members of the British mission would be lifted as of 29 November, and that the departure of British dependents would no longer be barred. The Chinese move followed a British initiative on 20 November easing restrictions on the movement of Chinese diplomats in London.

The Chinese decision may also be linked to the border agreement. Peking originally broached the idea of negotiations in late October and after lengthy talks between Chinese and Hong Kong border authorities, the British on 26 November reopened a border crossing and released five Chinese who had been arrested after illegally crossing into British territory. The British also agreed to remove barbed wire from along the border and to

provide compensation for alleged losses by Chinese farmers who were unable to reach their fields on the Hong Kong side.

In return, the British obtained the release of two Hong Kong policemen who had mistakenly crossed into Chinese territory. A British police inspector, who had been abducted by the Chinese, escaped and reached British territory prior to the conclusion of the agreement.

The British adopted a conciliatory approach throughout the four-week-long border talks, largely in the hope that any understanding reached might contribute to an easing of tension along the border. The British probably now believe they have established a channel that might make it easier to resume a dialogue with Chinese border authorities in the event of future trouble.

The British negotiators obtained no firm Chinese commitments to prevent further incidents in the area, but the border is quiet and Chinese Communist propaganda has been relatively restrained. In addition, Chinese military authorities are maintaining effective control over the frontier area.

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JAPAN'S PRIME MINISTER SATO STRENGTHENS HIS POSITION

The new Japanese cabinet and ruling party leadership appointed on 25 November are potentially the strongest team yet assembled by Prime Minister Sato. They include representatives of the important factions in the Liberal Democratic Party (LDP) and have a high level of competence.

Sato, while retaining seven capable cabinet officials including Foreign Minister Miki and Finance Minister Mizuta, brought in political figures with wide experience in high government posts to head the 11 remaining ministries. In a simultaneous reorganization of the LDP, he kept two incumbents in top posts and added a prominent member of a faction that has been a potential nucleus for intraparty opposition. In the distribution of both cabinet and party posts, Sato seems to have achieved a harmonious balance between the right- and left-of-center LDP factions.

Sato's reshuffling of the leadership, the fourth since he took office in 1964, was intended primarily to strengthen his position within the LDP. Japanese cabinets and key positions in the ruling party are changed frequently by the prime minister to reward loyal supporters or to muzzle critics. Sato probably decided that it was again time to play ministerial musical chairs as some senior party members were

becoming restive and perhaps eager to take their turn in the cabinet and to enjoy the accompanying status.

A leading opponent of Sato within the party, Yasuhiro Nakasone, was appointed minister of transportation in exchange for his support, which should help Sato gain election to a third term as party president late next year. Nakasone, for his part, probably believes a cabinet post will enhance his own chances ultimately to attain the prime ministership himself. Nakasone and the new minister of health and welfare, Sonoda, also bring to the cabinet youth and dynamism that could help to refurbish the government's staid public image.

Sato's buttressed intraparty position will help him tackle the tough problems he faces during the next several months. One task Sato appears to have set for himself is the promotion of a heightened defense consciousness in Japan to help expedite the return of the Ryukyus to Japanese administration. In addition, Sato's enhanced ability to maintain party discipline puts him in a favorable position to prevent a proliferation of candidates in the upper house elections next June. In the past, this excess of candidates has often hurt the LDP at the polls.

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EUROPE

During the last week's monetary crisis, Western Europe rallied to support Britain's devaluation and to prevent massive pressure on the dollar.

In his press conference on 27 November, De Gaulle covered familiar ground, including a call for a return to the gold standard. He accorded the US relatively less attention than in earlier performances, although he expressed dire forebodings about the weakness of the dollar. He advised the British to forget about negotiations to join the Common Market, and urged French Canadians to seek national autonomy. His remarks about the Middle East and Vietnam were similarly eccentric and unhelpful.

Moscow announced last week a meeting in Budapest in February to lay the groundwork for an international Communist conference. Sponsoring the Budapest meeting will be the same parties--less the Cubans--that met in Moscow in 1965 in an earlier unsuccessful attempt to arrange an international conference. As many as 60 or 70 parties may turn out in February.

Czechoslovakia and Hungary continue to evince interest in closer relations with West Germany. Bonn is planning to open a trade mission in Prague in January. The Hungarians are seeking to induce the West German Social Democratic Party (SPD) to send a high-level delegation to Budapest for "unofficial" talks.

Marshal of the Soviet Union Yakubovsky arrived in Bucharest on 23 November for what appears to be a protocol visit. This is his first visit to Rumania since his appointment as supreme commander of Warsaw Pact forces earlier this year. The last visit of a Pact commander to Rumania was in June 1965.

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WESTERN EUROPE RESPONDS TO MONETARY CRISIS

Western Europe has demonstrated an impressive degree of support for the British devaluation of the pound sterling as well as for efforts to prevent the devaluation from leading to massive pressure on the dollar. This support shows again that in times of crisis the major financial powers can be relied upon to activate emergency arrangements in order to avoid monetary chaos of global dimensions.

Their cooperation was demonstrated in Frankfurt on 26 November, when the active members of the Gold Pool* agreed to a US request to coordinate support for the gold-exchange system. This agreement had the effect of demonstrating solidarity in the face of French actions, including withdrawal last summer from participation in the Pool, which had contributed to the crisis. The French are participating, however, in a projected loan to Britain under the auspices of the International Monetary Fund (IMF).

In his press conference on 27 November, De Gaulle reiterated his call for a return to the gold standard. His remarks did nothing to resolve any of the questions regarding international

monetary reform, which is currently under discussion among the six members of the European Communities (EC). In particular, he may have added to uncertainty on prospects for the plan--agreed to in principle last September by all members of the IMF--to supplement international reserves with special drawing rights.

Britain's devaluation of the pound undercut one of the arguments attacking its readiness for EC membership, but there is still general concern over the basic health of the British economy. Devaluation still leaves open, moreover, the problem of sterling's reserve-currency role in an enlarged Community. The various proposals for dealing with this have yet to be formally submitted, either by Britain or Community members. Italian Treasury Minister Colombo, the author of one proposal for Community funding of overseas sterling balances, may bring up the subject during his five-day visit to Bonn this week.

In the debate over British membership, such considerations are likely to be overshadowed in the immediate future by De Gaulle's statements in his press

*The US, UK, West Germany, Italy, Belgium, Netherlands, and Switzerland.

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conference this week. The French President not only repeated his warning that Britain must undergo "fundamental" and "radical" changes before being ready for Community membership, but also cautioned that negotiations themselves would destroy the Community.

In reply, Prime Minister Wilson directly challenged De Gaulle's "static conception" of Europe, stating that Britain's application is still very much alive and noting the responsibilities of the Six under the Rome Treaty to respond to London's bid. Brussels and Rome now envision consultations among the Five, before the EC Council meeting on 18 December, to concert views on De Gaulle's latest declarations.

The grounds for a crisis are present, although it is by no means certain if or when it will come. There is little will for a

direct confrontation with De Gaulle, but it is difficult to imagine a position on negotiations that all the Six could agree on.

Although specific proposals for "association" may yet emerge, no one seems to have the same idea about what association means. Moreover, such proposals would--at the moment at least--be unacceptable to the British. A senior Dutch official, while not ruling out some kind of association offer, noted this week that association negotiations lasting indefinitely would expose the Five to "all kinds of blackmail" from the French.

One result of further meetings of the Six could be a decision to tell London that the Community is unable to reach a common point of view. Whether such an outcome would bury the issue remains to be seen.

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SOVIET DEBATE OVER RESOURCE ALLOCATIONS PUBLICIZED

Despite the formal agreement in October on a plan and budget for 1968 and on goals for the following two years, signs of high-level discord over the allocation of economic resources in the near future are appearing in the Soviet press.

Shortly after the 1968-70 plan guidelines had been approved,

politburo member Polyansky implicitly criticized the reduction in investment, particularly in agriculture, contained in these decisions. Citing Brezhnev's earlier endorsement of the 1966-70 program to stimulate agricultural production, Polyansky argued that this program is as vital as ever, the two good harvests of 1966-67 notwithstanding.

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At about the same time, an article by Baibakov, the head of the State Planning Commission and a close associate of Premier Kosygin, implied that Polyansky's concern for agriculture can best be met by the broad development of the entire economy.

Baibakov stresses that the economic reforms, whose chief regime spokesman has been Kosygin, will result in accelerated technological progress and greater efficiency in production "in all branches of the economy." On this basis, real incomes allegedly will rise and the differences between urban and rural living standards will be overcome. Polyansky had argued that this discrepancy in living standards was symptomatic of the previous neglect of agriculture, and that it should be eliminated by increased investment in the countryside.

Shortly after Baibakov's article appeared, Izvestia featured a long editorial in praise of greater steel production. The paper stated that although further growth in the steel industry will be costly and difficult, and although many substitutes already exist, nevertheless "metal will remain the basic foundation of the economy for a long time to come." The

editorial expanded on this theme by noting that the continued development of steel and other metals was essential to further increases in housing, consumer goods, chemistry, space programs, and the like--agriculture, by implication, is included in this listing.

The day following Izvestia's editorial, Pravda championed the cause of an increased supply of consumer goods. The editorial called for greater output of these products by metallurgical, chemical, and machine building enterprises among others, but it singled out only the Ministry for Tractor and Agricultural Machine Building for special criticism. This is noteworthy because this ministry has been particularly derelict in meeting the production goals for farm machinery called for in the 1966-70 plan.

The publication of different points of view on resource allocation in the USSR does not mean that distinct factions exist within the leadership. Continued special pleading, however, indicates that no single person or group has yet been able to impose a clear-cut imprint on the future course of the Soviet economy.

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POLITICAL OVERTONES IN EAST-WEST GERMAN TRADE

Recent changes in East-West German trade may lead to new arrangements implying greater recognition of East Germany's existence as a separate state.

The central aim of East German policy toward Bonn has been to obtain political recognition. Transformation of the special institution of interzonal trade (IZT), which formally treats such trade as domestic commerce, into something approaching normal foreign trade would bring the East Germans closer to this goal.

The West Germans are eager to encourage the growth of IZT, not for economic reasons, inasmuch as it constitutes less than two percent of their total foreign trade, but because it is one of the few remaining links between East and West Germany. In an effort to stimulate this trade, Bonn has eliminated a number of restrictions to which the East Germans have long objected. In effect, these changes blur the old distinction that the West Germans draw between IZT and their other foreign trade.

Some Bonn government officials, including All-German Affairs Minister Wehner and possibly Foreign Minister Brandt, are discussing the possibility of replacing the

present agreement with a government-to-government agreement. It is unlikely, however, that Chancellor Kiesinger would now be willing to go that far in the direction of official recognition of East German sovereignty.

Although IZT is economically more important to Pankow than it is to Bonn, constituting ten percent of total East German foreign trade, the crux of the situation still is in its political aspects. The East German economy could survive the loss of all its imports from West Germany without major disruption because the regime has shifted its requirements for most strategic commodities from West Germany to the Soviet Union.

East Germany, however, has exploited IZT for advanced technical equipment and is eager to continue to do so--but on its own terms. Many of East Germany's long-standing demands have been met but Pankow, as usual, has made no counterconcessions, and apparently has no intention of doing so. The East Germans would sacrifice the preferential treatment that their exports receive under the current agreement for the degree of recognition contained in a government-to-government agreement.

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MIDDLE EAST - AFRICA

Several international troubleshooters worked feverishly this week to defuze potentially explosive situations in Cyprus and the Middle East.

Western and UN officials have apparently been successful in selling to the Greeks and Turks some sort of an agreed solution over the Cyprus crisis. Even Cypriot President Makarios is reported to have accepted the agreement in principle.

The Soviets, besides urging a peaceful settlement on the three main parties in the Cyprus crisis, demonstrated again that they believe their interests would be best served if Cyprus remains an independent state. A key element in Moscow's attitude is its solicitude for its relations with Turkey. There were conflicting reports of what the Soviets were saying privately to the Cypriots and the Turks, but the USSR's aim was apparently twofold: to make itself felt without becoming deeply embroiled while there was a threat of hostilities, and to store up diplomatic credit particularly in Ankara.

UN Secretary General Thant has sent Swedish diplomat Gunnar Jarring to the Middle East to help resolve the impasse between Israel and the Arab states. Nasir's speech on 23 November indicated that Egypt was prepared to cooperate with the UN emissary.

The Organization of African Unity's mission to Nigeria, after endorsing the federal government's essential conditions for ending the civil war, gained Lagos' approval for one mission member to talk with the Biafran secessionists. The mission was immediately denounced by the Biafrans, however, and its prospects for bringing the two sides together are not bright.

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CYPRUS CRISIS EASES

The latest Cyprus crisis appears to have been defuzed, although there may still be hitches--and more debate--before the island settles down under new security arrangements.

Basically, the Greek Government has agreed to Turkish demands that the Greek forces on the island--clandestinely introduced in excess of the number allowed under the London-Zurich agreements of 1959--be withdrawn within 45 days, although more extension of this time limit may be possible. The Turks also insist on the disbanding of the Greek Cypriot National Guard, a force of some 32,000 men including reserves that was created by Makarios in 1963.

Whatever Makarios has agreed to in principle, he is virtually certain to try to evade this demand in practice, since the Guard has been the force backing his long-term policy of extending effective Greek Cypriot control over the entire island. Detailed negotiations over implementation of the general agreements will probably take place in New York, inasmuch as the UN is expected to assume a major role following up on an appeal by Secretary General Thant to the parties involved to keep the peace.

Beyond the immediate questions lie the basic issues of how a reasonable degree of order, not to mention government authority, is to be maintained on the island. Makarios almost certainly will continue his efforts to extend central government authority over the Turkish Cypriot enclaves, but he may find it necessary in the long run to recognize some sort of Turkish autonomy on a village level.

The two ethnic communities are probably more deeply divided now than they were before the Ayios Theodoros incident. Full prosperity for the Turks will require wider participation in the economic and business life of the island than has been the case in recent years, but under the circumstances this will be difficult to accomplish. On the other hand, Turkish Cypriot disappointment at Ankara's failure once more to solve the problem by force of arms may convince some of them they must now work out a modus vivendi with the Makarios government.

During the crisis the Soviets reiterated their support for an independent Cyprus while trying to protect their growing rapport with the Turks. A crisis

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on the island tends to jeopardize its independence and complicates Moscow's relations with Ankara. Thus, Moscow's first public statements showed apprehension over the possibility of a conflict and urged all parties to seek a peaceful settlement.

Soviet news media continued to indicate concern over the possibility of war while making as much as they could of the opportunity to reinforce Soviet campaigns against NATO and the Greek junta. Some Soviet statements, however, had a pro-Turkish bent and reportedly annoyed Makarios. In an attempt to calm the protagonists, Moscow criticized the Cypriot Government, admonishing it to do more to

prevent "a further complication of the situation." A later statement by the Soviet ambassador in Ankara carried the strong hint that "illegal" Greek forces should be removed from the island, which Makarios could only interpret as clear support for Turkey.

Greek-Turkish enmity is generally to the Soviet liking because it threatens to weaken the position of NATO in the eastern Mediterranean. Soviet opposition to a Cyprus settlement by way of enosis or partition is partly due to the fact that either arrangement could lead to a Cypriot association with NATO. Nevertheless, it is not in the Soviet interest to see friction develop to the point of hostilities.

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INDIA'S STATE POLITICS HEATING UP

A frenzy of political activity has gripped several of the Indian states not controlled by Congress Party governments. In less than two weeks, three feeble non-Congress coalitions have fallen, with an assist from the

Congress Party. In two of these states, Congress-backed governments moved in; the third is now ruled directly from New Delhi.

In volatile West Bengal--where on 21 November the state



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governor dismissed the leftist United Front (UF) coalition and swore in a Congress-supported regime--the political battle lines have been clearly drawn. Following the lead of the radical left Communists (CPI/L), the ousted UF has embarked on a vituperative, rabble-rousing campaign aimed at promoting chaos. The new government, however, is determined to face down the challenge.

Last week the police put down violent agitation and a two-day general strike that had largely paralyzed Calcutta. Another round of UF-inspired agitation is now under way, but police--if necessary, with the help of alerted army units--should be able to contain it. The UF did, however, win an important tactical victory on 29 November when its holdover speaker in the assembly declared the new government unconstitutional and adjourned the house sine die before a confidence vote could take place. The state governor is back on the defensive, and New Delhi may be forced to resort to direct rule--a move bound to stir up further unrest.

The two other governmental changes were much smoother. The state assembly of Haryana was dissolved and replaced with direct rule from New Delhi on 21 November. The move came after months of aisle crossing between the ruling Haryana United Front and the Congress-led opposition had

brought effective administration to a standstill.

The neighboring Punjab-coalition regime collapsed on 22 November when defections from its legislative ranks ended its majority. The leader of the defectors has formed a new government with a pledge of Congress Party support in the state assembly.

Problems are mounting for at least three other non-Congress state governments. In Uttar Pradesh, both Communist ministers of the ruling Samyukta Vidhayak Dal (SVD) coalition resigned on 22 November. To keep Congress from returning to power, they intend--at least for now--to support the SVD in the state assembly. The shaky coalition in Bihar also shows signs of cracking, and the CPI/L-dominated government in Kerala is experiencing increased internal strains.

Just how these developments will affect the over-all Congress Party position remains unclear. Although Congress has been able to accelerate the downfall of some disintegrating non-Congress coalitions, its discredited state units have been unable to fill the resulting political vacuums. More state-level political instability seems in the offing, with direct rule from New Delhi and mid-term elections likely in some cases.

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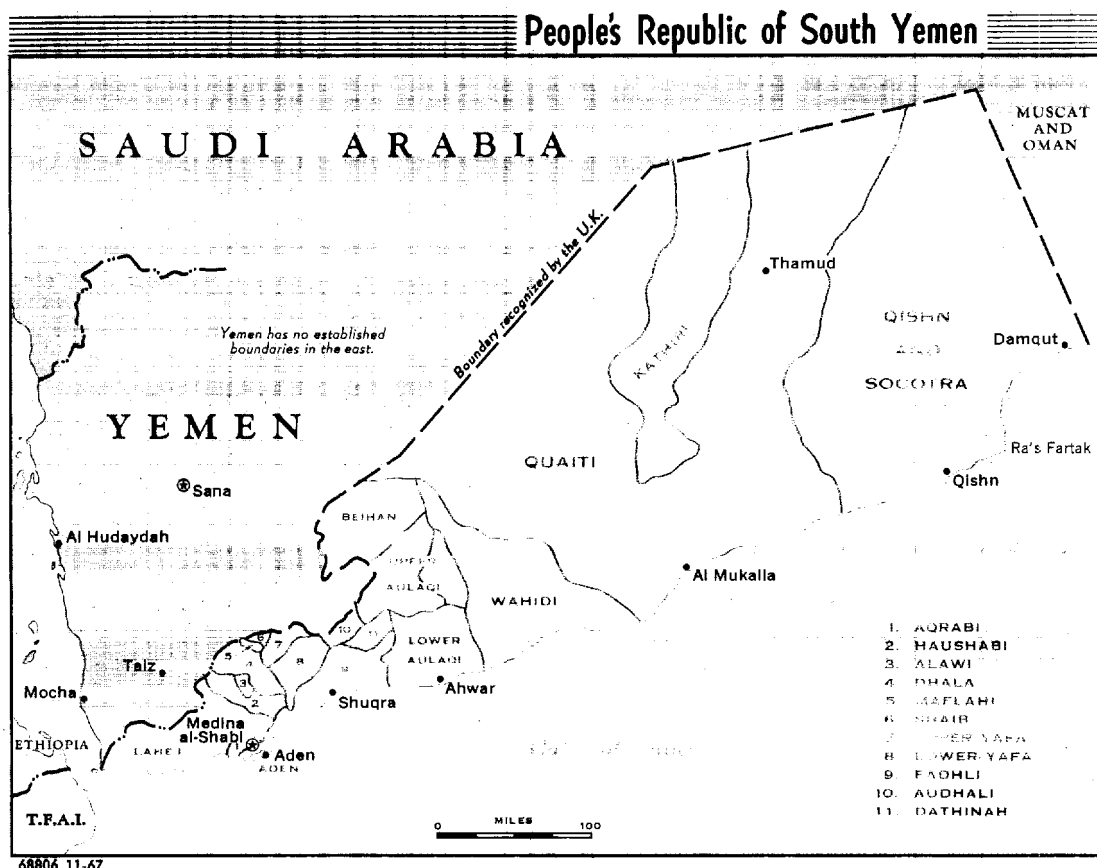
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INDEPENDENT SOUTH YEMEN FACES SERIOUS HURDLES

On 30 November the British protectorate of Aden became an independent state, renamed the People's Republic of South Yemen.

The new government formed by the National Liberation Front (NLF) faces economic and political problems of immense proportions.

The British evacuation, the closure of the Suez Canal, and protracted political instability have left the country in a precarious position economically. Bunkering activity from June to October was only about five percent of that of last year. Refinery production for 1967 will be 30 percent less than capacity,



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and refined products exported are down 40 percent. Transit passengers have all but disappeared, and the likely end to Aden as a free port would destroy the status that attracted many transit passenger ships.

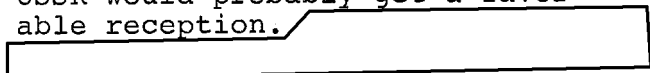
In a work force of about 81,000 men, 13,000 used to be employed by the British forces, 7,500 by the port authority, and 11,000 in retail and wholesale trade. A large number of these have been left jobless as a result of the British withdrawal and the drop in port and commercial activities.



The key political problem is the heritage left by years of civil war. The Front for the Liberation of Occupied South Yemen (FLOSY), the rival nationalist group, although drastically weakened, retains the ability to make trouble, especially if it receives outside help from Yemen, Egypt, or even Saudi Arabia. Some of the ousted

rulers of the Adeni sultanates are hoping to return with Saudi backing. Although the NLF apparently retains the loyalty of the army and the police, it will be hard put to scrape up the funds to pay the security forces. Continuing disorder would destroy any remaining chance for future economic viability.

Spokesmen for the NLF Command Council have explained that the country's new name is intended merely to demonstrate that the regime is for all the people and is supported by them. With respect to foreign policy, they said, the country is non-aligned. One official indicated that the political and cultural heritage of South Arabia has been so deeply affected by contact with Britain and use of the English language that there could be no question of the development of a "special relationship" with the Chinese Communists or the Soviets. Nevertheless, the regime will presumably have no alternative but to seek financial help from all sources, and a request to the USSR would probably get a favorable reception.



EGYPTIAN PRESIDENT'S SPEECH INDICATES SOME MODERATION

Nasir's speech on 23 November before the opening session of Egypt's National Assembly contains some harsh statements, but seems to indicate that Cairo will afford at least minimum co-

operation to UN efforts to achieve some type of immediate settlement with Israel. His remarks, however, probably have increased Israeli intransigence regarding their use of the Suez Canal.

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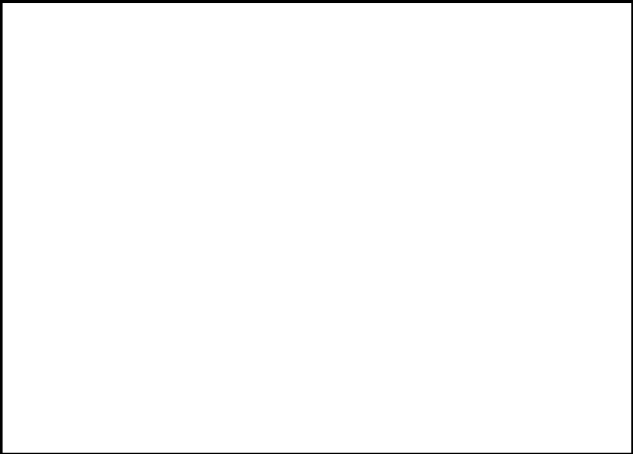
Beginning with a lengthy appraisal of events since the June war and with high praise for the courage of the Egyptian masses Nasir went on to stress that the Arabs were not yet out of trouble and that a difficult struggle lay ahead. Egypt must rebuild its military, he continued, for "political action can only have value if it is backed by power or the possibility of power." Although Nasir did raise the specter of renewed warfare a number of times, he balanced these statements by saying that the Arabs should "not hesitate to attempt political action." Nasir probably reflected the conviction of the majority of the Arabs, however, when he added that they should prepare for military action "should this be the only course left."

Nasir criticized the recently passed UN Security Council resolution as "insufficient," but said that Cairo had it under study. Striking a note of realism, he indicated that he was under no illusions that the UN resolution alone could solve the current crisis and that some tough bargaining was ahead. Cairo has since agreed to receive the UN special emissary, Gunnar Jarring.

Regarding the canal, Nasir said, "we shall not allow Israel, whatever the cost, to pass through the Suez Canal. Passage through the Suez Canal is an indivisible part of the original Palestine question. It is not part of the problem of eliminating the effects of the aggression." This would seem to indicate that

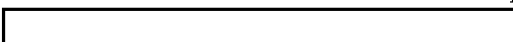
Cairo is standing by its previously indicated position of eventually allowing Israel to use the canal if an "equitable" settlement for the Palestinian refugees is achieved.

Nasir's speech appears to have provoked a generally favorable reaction among most Arabs, many of whom saw it as a moderate expression of the Arab viewpoint.



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The tone of Nasir's speech may not have set well with Moscow, which is supporting the UN resolution and urging moderation on the Arabs. Soviet UN Ambassador Kuznetsov indicated disapproval to Ambassador Goldberg, saying that Nasir used poor timing and too little restraint. Soviet press coverage has chosen to ignore Nasir's harsher statements. Moscow may consider, however, that Nasir was speaking more for local effect, and he is probably not included among the Arab "hotheads" who were the target of the public admonition carried later in the Soviet press.



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WESTERN HEMISPHERE

Diplomatic activity in the hemisphere has centered on efforts to elect a new secretary general for the Organization of American States (OAS).

In an unprecedented fourth ballot on 29 November, Eduardo Ritter, the Panamanian candidate, picked up another vote, but he is still two short of the necessary majority of 12. US-backed Galo Plaza of Ecuador kept the six votes he had on the previous ballot, and Venezuela's Falcon Briceno retained his five. Mexico--obviously waiting for a consensus to develop--again abstained. Intensive diplomatic pressure is apparently hurting Galo Plaza. 25X1

[REDACTED]

At this point, it looks as if the three major candidates will remain in the race. There has been some talk of proposing a "dark horse" candidate to break the impasse.

Problems with organized labor continue in several countries. In Argentina, the conflict stems from the government's determination to keep the unions out of political activity. A general strike in Chile resulted in violence, but the government appears firm in its stand against union interference in its economic policies.

Peru is faced with a transportation strike that could paralyze the capital and lead to violence. In Uruguay, devaluation of the peso has led to sharp price increases, and many Communist-dominated unions are likely to strike for corresponding wage hikes. [REDACTED] 25X1

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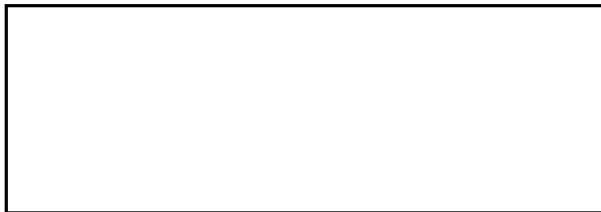
OPPOSITION ALLIANCE FORMED IN PANAMA

Four parties have bolted President Robles' eight-party coalition and have joined forces with Arnulfo Arias' mass-based Panamenista Party in a National Unity Front (NUF) in preparation for presidential elections next May. Arias will head the NUF ticket, with two prominent leaders of the other parties as first and second vice president.

At this point, the charismatic Arias is the strongest contender in the presidential race. The five parties backing him received 197,000 votes out of the 317,000 cast in the 1964 elections. On the other hand, the four parties that presently

back Robles' candidate, David Samudio, received only 83,000 votes. Adding to the strength of the opposition alliance is its control of at least 28 of the 42 deputies in the National Assembly and the support of more than half of the major newspapers and a number of radio stations.

The Canal treaties are likely to be a major issue as the campaign gathers steam.



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David Samudio Avila



Arnulfo Arias Madrid

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it is impossible to predict how Arias might act if he should win the presidency. He has twice been ousted from the presidency because of his dictatorial tendencies--the last time by the national guard in 1951. Since his narrow defeat in the 1964 election, he has maintained that only fraud and the national guard kept him from occupying the presidency.

This time, in an effort to avoid past mistakes, he has brought into his alliance members of the oligarchy who have close business and family ties to national guard commandant Vallarino.

The announcement of the new alliance seems to have shocked Robles into yet another attempt to solve the political crisis by offering General Vallarino the government candidacy and persuading Samudio to step down. If this last-ditch effort should succeed, some of the dissident parties might desert Arias and return to the government fold.

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CHILEAN LABOR PROBLEMS CONTINUE UNABATED

The 24-hour general strike on November 23 to protest the Chilean Government's controversial wage price policy attracted considerable support and no quick end to the labor agitation is in view. Rioting during the strike left five people dead and many injured, providing the labor movement with "martyrs."

The strike was called by the Single Center of Chilean Workers (CUTCh), which is controlled by the Communist and Socialist parties. The amount of support it received from non-Communist unions not affiliated with CUTCh helped strengthen CUTCh's claim to be

the defender of the workers' rights against the government. The government's proposed wage adjustment legislation has provoked opposition from all economic and political sectors. The most controversial provisions would limit wage increases in both the public and the private sectors, and would make part of the increase payable in bonds of a government fund. Other provisions, almost equally unpopular, prohibit strikes for additional wage increases and impose extensive price controls.

The copper industry is also facing labor problems as a result

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of contract disputes. The Andes Copper Company, an Anaconda subsidiary, has been shut down for a month, and a wildcat strike has now hit the Braden-owned El Teniente mine. As a result of the copper shutdown, Chile is unable to take advantage of the currently high world copper prices.

The government has initiated proceedings against leaders of the strike on 23 November, charging them with "organizing, guiding, and promoting" the rioting. Such action against a union is unusual,

although Chilean labor laws prohibit most strikes. In this case, Frei may believe that he can turn widespread revulsion at last week's violence against the labor movement. Even Christian Democratic labor leaders are apprehensive about the new legislation, however, and labor agitation can be expected to continue, regardless of its illegality. Frei's ability to deal with these problems will provide an indication of how much influence he retains after three years in office.

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